

CITY OF LA VERKIN, UTAH
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITORS' REPORTS

FOR THE YEAR ENDED JUNE 30, 2006

CITY OF LA VERKIN, UTAH

YEAR ENDED JUNE 30, 2006

TABLE OF CONTENTS

TABLE OF CONTENTS	2 - 3
INDEPENDENT AUDITORS' REPORT	4-5
MANAGEMENTS' DISCUSSION AND ANALYSIS ..	6-14
BASIC FINANCIAL STATEMENTS:	
Government-wide Financial Statements:	
Statement of Net Assets	15
Statement of Activities	16
Governmental Fund Financial Statements:	
Balance Sheet - Governmental Funds	17
Reconciliation of the Balance Sheet of Governmental Funds to the	
Statement of Net Assets	18
Statement of Revenues, Expenditures, and Changes in Fund Balances -	
Governmental Funds	19
Reconciliation of the Statement of Revenues, Expenditures, and Changes	
in Fund Balances of Governmental Funds to the Statement of Activities	20
Statement of Revenues, Expenditures, and Changes in Fund Balances-	
Budget and Actual - General Fund	21
Proprietary Fund Financial Statements:	
Statement of Net Assets	22
Statement of Revenues, Expenses and Changes in Net Assets	23
Statement of Cash Flows	24
Notes to the Financial Statements	25 - 46

City of La Verkin, UTAH
YEAR ENDED JUNE 30, 2006

TABLE OF CONTENTS (CONTINUED)

COMPLIANCE SECTION:

Independent Auditors' Report on State Legal Compliance	48 - 49
Status of Prior Year's Findings For State Compliance	50
Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.	51 - 52
Independent Auditors' Letter to Management	53 - 54

HAFEN
BUCKNER
EVERETT
& GRAFF PC
CERTIFIED PUBLIC
ACCOUNTANTS
INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Town Council
La Verkin, Utah

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the remaining fund information of the City of La Verkin, Utah (the City) as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the remaining fund information of the City of La Verkin as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 6 through 14 and the budgetary comparison information on page 21, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The supplementary combining and individual fund statements and schedules described in the table of contents are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all

material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2006, on our consideration of the Town's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Hafen, Buckner, Everett & Graff PC

HAFEN, BUCKNER, EVERETT & GRAFF, PC

October 12, 2006

CITY OF LA VERKIN

Management's Discussion and Analysis

The following narrative presents management's discussion and analysis of the financial performance of the City's general governmental activities during the fiscal year ending 30 June 2006. It should be read in conjunction with the accompanying basic financial statements.

Financial Highlights

- The governmental assets of the City exceeded its liabilities at the close of the fiscal year ending June 30, 2006 by \$ 3,914,137.
- Unrestricted net assets were a deficit of \$ 395,681 as of June 30, 2006.
- As of June 30, 2006, the City of La Verkin's general fund reported an ending unreserved fund balance of \$ 32,020.
- The City had total bonded debt of \$ 1,926,560 at June 30, 2006 which was principally related to street improvements paid for with street revenue bonds.

Overview of the Financial Statements

This discussion and analysis serves as an introduction to the City's basic financial statements. The City's basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. Other supplementary information is included, as necessary, for clarification.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. These statements include the Statement of Net Assets and the Statement of Activities.

The *Statement of Net Assets* includes all of the City's assets and liabilities, and the resulting difference between the assets and liabilities, or net assets. Net assets (and the related change in net assets from year to year) are probably the most important financial measurement to enable understanding of the financial position of the City, and whether financial position improves or deteriorates each year. To assess the overall health of the City, additional non-financial factors such as changes in the property tax base, the condition of the City's infrastructure, etc. should be also be considered.

The *Statement of Activities* shows how the City's net assets changed as a result of its operations during the most recent fiscal year. To understand the basis of how these numbers are determined, it is important to note that changes in net assets are reported whenever an event occurs that requires a revenue or expense to be recognized, regardless of when the related cash is received or disbursed (the accrual basis of accounting). For example, most revenues are reported when the revenues are legally due, even though they may not be collected for some time after that date; and an obligation to pay a supplier is reported as an expense when the goods or services are received, even though the bill may not be paid until sometime later.

There are two distinct types of activities reflected in the government-wide statements, governmental activities and business-type activities. Governmental activities are those supported primarily by intergovernmental revenues, taxes, and fees for services, while business-type activities are those in which all costs (or at least a significant portion of costs) are intended to be recovered through user fees and charges. The City's governmental activities include such functions as maintenance of roads, parks, and cemeteries, fire protection, animal control, law enforcement, building inspection, solid waste removal, general government record-keeping, local legislation, and administration. The business-type activities of the City of La Verkin include water utilities, sewer utilities, irrigation utilities, garbage utilities and drainage.

Fund Financial Statements

As is common with other state or local government entities, the City of La Verkin uses *funds* to account for separate activities and to help demonstrate compliance with financially related legal requirements (such as budgetary compliance). A fund is a set of closely related accounts used to maintain control over financial resources which have been segregated for specific activities or purposes. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based on the purposes for which the funds are to be spent as well as by how the activities are to be controlled. The three broad categories of funds are: Governmental Funds, Proprietary Funds and Fiduciary Funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the year. Such information may be useful in evaluating the government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. The City currently maintains five individual governmental funds which include:

- 1) **General Fund.** The general fund is the operating fund of the City. Revenues from intergovernmental sources, fees for services, and all other sources are received into this fund. Expenditures include operation and administrative costs.
- 2) **Capital Projects Fund (Streets).** In May 2000 the citizens bonded for a badly needed City Street renovation project. The bond is a revenue bond and is included in the liabilities of the general fund and is payable in quarterly installments of \$ 22,094 through May 2010.

In May of 2006 sales tax revenue bonds were sold in the amount of \$1,093,000.

Closing and other costs amounted to \$ 20,657. During the fiscal year ended June 30, 2006 the city transferred \$ 182,498 of the bond proceeds from the fiduciary account to help fund street improvement expenditures of \$ 203,155. The bonds are to be repaid in 20 annual installments beginning July 15, 2007 in variable amounts from \$ 33,000 through \$ 84,000 plus interest from 4.69% to 4.92%.

- 3) **Capital Projects Fund (New Office Building)** In fiscal years 2005 and 2006 the City used this fund to account for the costs related to the new office building that is now complete and occupied. This fund was closed as of June 30, 2006.
- 4) **Capital Projects Fund (Parks).** This fund allows for dedicated monies to be held for park improvements. This fund was closed as of June 30, 2006
- 5) **Permanent Fund (Cemetery Perpetual Care Fund)** This fund is to provide for the perpetual care of the city cemetery.

The General Fund and the Capital Projects Fund (Streets) are considered major funds and the other Capital Projects Fund and the Cemetery Perpetual Care fund are non-major funds. Because there are only two none major funds they have been shown separately along with the major funds in the statement of net assets.

Proprietary Funds

Proprietary funds are used to account for business-type activities and are measured using a method similar to commercial business accounting. The city uses only the enterprise type of proprietary funds which are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The City currently operates enterprise funds for the City-owned water system, the billing for Special Service Districts operating a regional sewer system and County wide solid waste or garbage collection system, an irrigation system and a storm drainage system.

Fiduciary Funds

Fiduciary funds, which consist solely of trust and agency funds, are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are *not* included in the government-wide financial statements because the resources are *not* available to support the City's operations. The accounting used for fiduciary funds is much like that used for proprietary funds. The City has no fiduciary funds.

Notes to the Financial Statement

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are part of the basic financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of La Verkin. The City adopts an annual appropriated budget for the governmental funds. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Government-wide Financial Analysis

As previously noted, net assets may serve over time as a useful indicator of an entity's financial position. In the case of the City of La Verkin, assets exceeded liabilities by \$3,914,137 at the close of the most recent fiscal year.

Statement of Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	2006	2005	2006	2005
Current and other assets	\$ 1,592,319	\$ 917,745	\$ 807,965	
Capital assets	<u>4,625,219</u>	<u>4,271,676</u>	<u>1,641,867</u>	<u>1,740,158</u>
Total assets	6,217,538	4,851,079	2,449,832	2,657,903
Long-term debt outstanding	1,602,547	549,929	492,000	518,000
Other liabilities	<u>700,854</u>	<u>368,927</u>	<u>137,123</u>	<u>120,591</u>
Total liabilities	2,303,401	918,856	629,123	638,591
Net assets:				
Invested in capital assets, net of debt	3,216,020	3,907,235	1,123,867	1,201,158
Restricted	1,093,798	147,775	204,423	493,146
Unrestricted	<u>(395,681)</u>	<u>(122,787)</u>	<u>492,419</u>	<u>325,008</u>
Total net assets	<u>\$3,914,137</u>	<u>\$3,932,223</u>	<u>\$1,820,709</u>	<u>\$1,730,760</u>

Changes in Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	2006	2005	2006	2005
Revenues				
Program revenues:				
Charges for services	\$ 363,594	\$ 312,980	\$ 1,287,935	\$1,356,414
Operating grants & contributions	73,758	61,384	---	---
Capital grants & contributions	---	---	---	---
General revenues:				
Property taxes	235,702	249,825	---	---
Other taxes	720,380	638,794	---	---
Investment income	8,714	6,842	24,818	9,831
Other revenues	<u>472,203</u>	<u>203,803</u>	<u>21,784</u>	<u>27,102</u>
Total revenues	<u>1,874,351</u>	<u>1,473,628</u>	<u>1,334,537</u>	<u>1,393,347</u>
Expenses:				
General government	874,990	555,443	---	---
Public safety	549,311	420,816	---	---
Animal Control	31,500	---	---	---
Public works	625,207	176,438	---	---
Parks and recreation	299,694	291,018	---	---
Interest on long-term debt	33,235	30,400	---	---
Water	---	---	567,026	504,320

Sewer	----	----	288,020	257,428
Irrigation	----	----	15,618	14,555
Garbage	----	----	140,976	112,632
Drainage	----	----	----	----
Total Expenses	<u>2,413,937</u>	<u>1,474,115</u>	<u>1,011,640</u>	<u>948,620</u>
Increase (decrease) in net assets	(539,586)	(487)	322,897	444,727
Transfers	521,500	123,118	(521,500)	(355,918)
Net assets, beginning	3,932,223	3,809,592	2,019,312	1,840,517
Prior Period Adjustment	----	----	----	89,986
Net assets, Ending	<u>\$3,914,137</u>	<u>3,932,223</u>	<u>\$1,820,709</u>	<u>\$2,019,312</u>

Governmental Activities

Revenue Highlights:

Taxes comprise a significant source of revenue for the City's governmental activities; approximately \$235,702 or 13 percent in fiscal year 2006 and \$249,825 or 16 percent in fiscal year 2005 of total revenues from governmental activities came from property taxes. Sales & use and franchise taxes made up 29% of total revenue in 2006 and amounted to \$535,617. Highway and other taxes accounted for 7% of 2006 revenue and amounted to \$138,011. Developer fees and other revenue accounts for \$ 159,745 or 8% of the total governmental revenue. Charges for services including impact fees, fines and other fees accounted for 19% or \$ 363,594 of governmental revenue. Operating grants and contributions amounted to \$ 73,758 or 4% of governmental revenue. Bond proceeds amounted to \$ 289,453.

Transfers from other funds to the general fund amounted to \$521,500.

Expense Highlights:

General government expenses of approximately \$874,990 in fiscal year 2006 accounted for 36% of general fund expenses. General government includes such services as Mayor, Town Council, Judicial, Administration, Budget, Building Maintenance, Economic Development, Public Affairs, and Non-departmental.

Public Safety expenses increased in fiscal year 2006 to \$580,811 or 24 percent from \$420,816 or 29 percent in fiscal year 2005.

Total revenues were \$ 18,086 less than expenses for fiscal year 2006
Total revenues were \$487 less than expenses for fiscal year 2005.

Business-type Activities

Revenue Highlights:

Total revenues in business-type activities decreased by approximately \$ 58,810 with charges for services accounting for most of the decrease. Total revenues from business-type activities amounted to \$ 1,393,347 in fiscal year 2005 and \$ 1,334,537 in fiscal year 2006.

Expense Highlights:

Total expenses in business-type activities increased by approximately \$63,020 for fiscal year 2006 which is an increase of less than seven percent over expenses in fiscal year 2005.

Financial Analysis of the City's Funds

Governmental Funds: The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources.

As of June 30, 2006, the City's governmental funds (General and Capital Projects) reported combined fund balances of \$ 1,019,888. This represents an increase of \$711,001 and is primarily the result of the issuance of bonds.

Proprietary Funds: The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Net assets of the City's enterprise funds totaled approximately \$1,820,709 in fiscal year 2006 as compared to \$2,019,312 as adjusted at the end of fiscal year 2005. The decrease in net assets appears to be from operations and is consistent with changes in prior fiscal years.

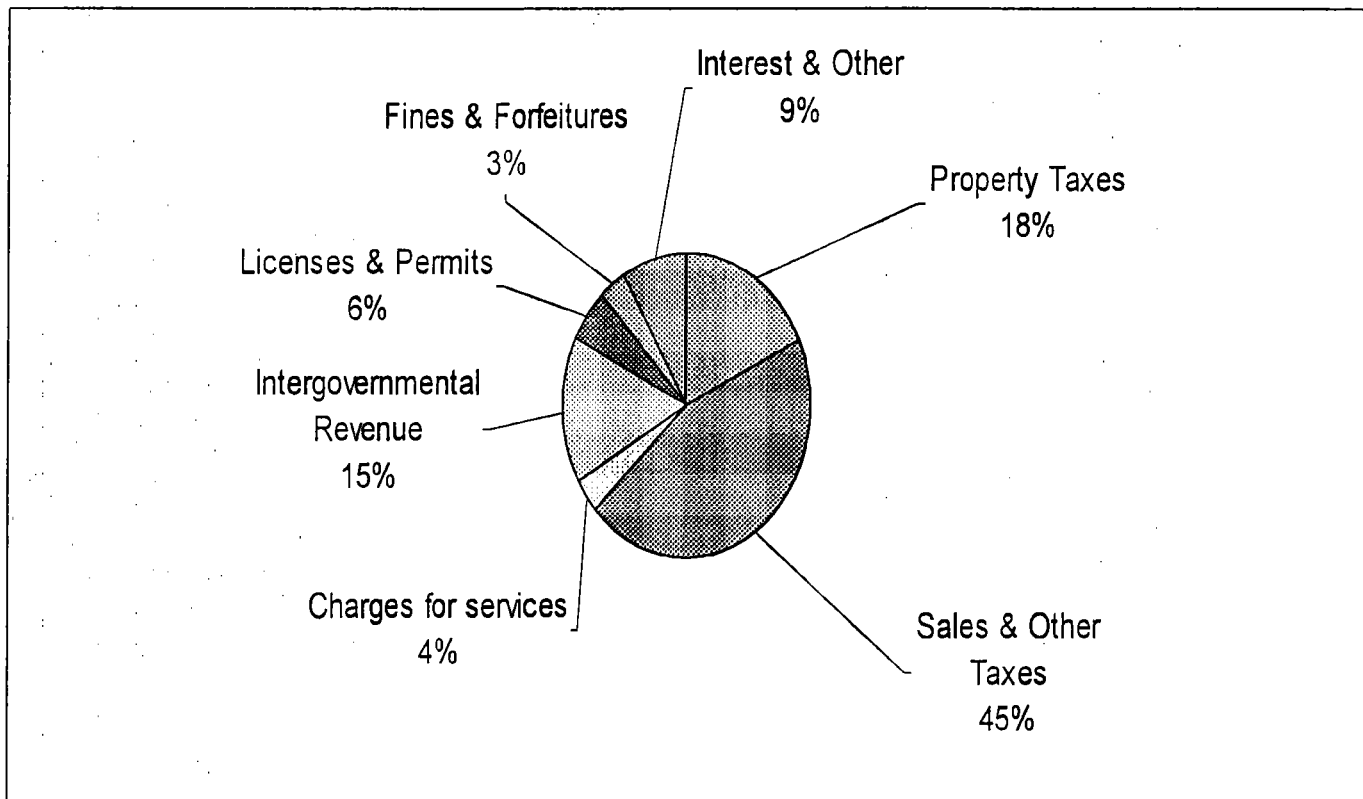
General Fund Budgetary Highlights

The City Council approved the general fund budget at its regular meeting on June 1, 2005. Significant budget amendments included increasing grants and impact fee revenue by a total of \$ 165,000 in December 2005 and reducing the general fund budget for street improvements by \$200,000 while increasing the capital projects budget for street improvements by \$ 99,500. Another budget amendment was to close the new building capital projects fund and making corrections to the streets capital projects fund. This budget amendment amounted to \$ \$ 287,175. At the close of the fiscal year, budgeted revenues exceeded the actual revenues by \$ 106,671 and actual expenditures were \$ 36,231 less than budgeted..

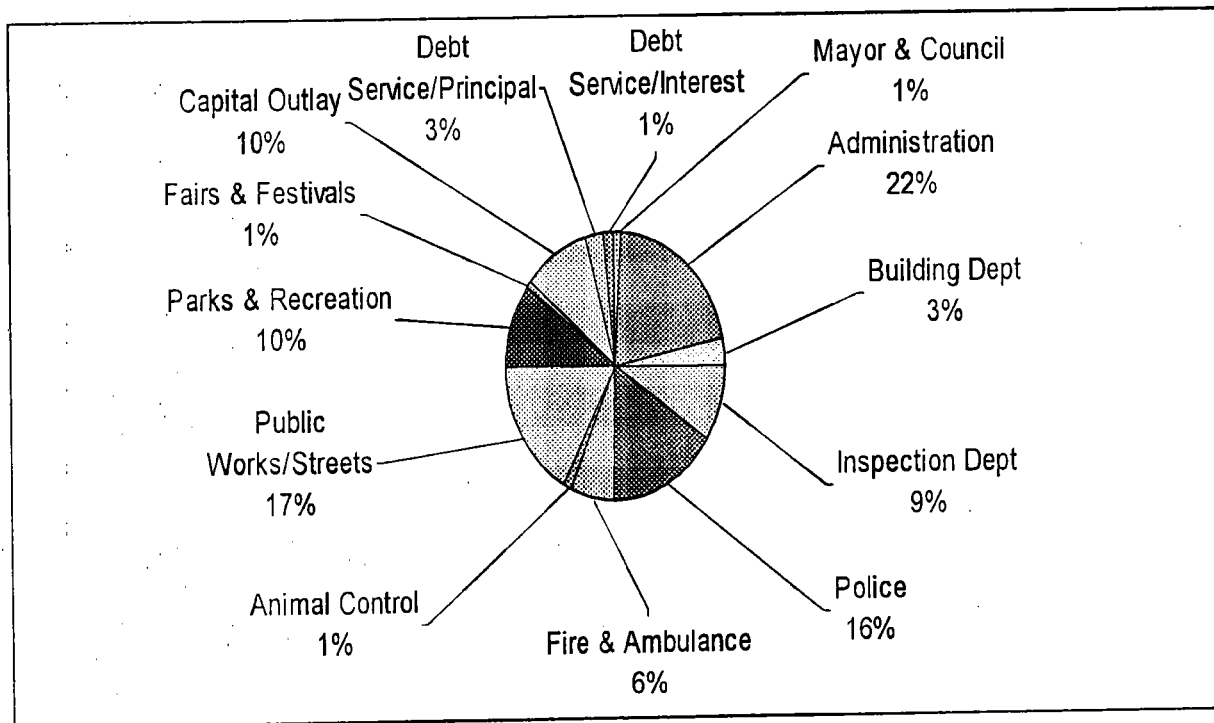
Summary of Actual to Budgeted Revenues & Expenses

	Original Budget	Amended Budget	Actual (Budgetary Basis)
Total Revenues	\$ 1,139,045	\$ 1,398,045	\$ 1,291,374
Total Expenditures including Capital Outlay	\$ 1,519,898	\$ 2,305,241	\$ 2,269,010
Net Revenue Over Expenditures	<u>\$ (380,853)</u>	<u>\$ (907,196)</u>	<u>\$ (977,636)</u>

The following chart depicts the City's Governmental Fund revenues by source and percentage:



The following chart depicts the City's Governmental Fund expenditures by general category and percentage:



Capital Assets and Debt Administration

Capital Assets

The City's fiscal year 2006 investment in capital assets amounted to \$ 659,626. Fiscal year 2006 additions, subject to capitalization, included \$ 259,401 in additions to the new office building with \$ 37,079 in new office furniture and equipment and \$ 29,439 in general government vehicles. Equipment and vehicles for public safety amounted to \$ 81,582 and road improvements and storm drains amounting to \$ 106,820 were added during fiscal year 2006. A small addition to the city park cost \$ 70,715 and improvements around the new city office amounted to \$ 68,256.

Summary of Net Capital Assets

General Government	\$ 842,156	Parks & Recreation	\$ 705,997
Public Works	\$ 6,955,976	Depreciation	\$ 4,072,030
Public Safety	\$ 193,120	Total Net Capital Assets	\$ 4,625,219

The City of La Verkin incurred \$ 1,093,000 in new long-term debt to the general fund during the fiscal year ending 30 June 2006.

Change in Unrestricted General Fund Balance

It should be noted that the unrestricted General Fund Balance was reduced by \$ 179,161 from \$ 205,950 at June 30, 2005 to \$ 26,789 at June 30, 2006 mainly as a result of transfers from the General Fund to the Center Street Capital Improvement Project of \$ 59,268 and \$230,980 from the General Fund to the New Office Building Capital Improvement Project to close these projects out.

Requests for Information

This financial report is designed to provide interested parties with a general overview of the City's financial status. Questions concerning any of the reports and information contained in this financial audit, or requests for additional financial information, should be addressed to the City of La Verkin, 435 North Main Street, LaVerkin, UT 84745. Complete financial statements for the City of La Verkin may be viewed at the City Offices located at La Verkin, Utah.

City of La Verkin
Statement of Net Assets
June 30, 2006

	Governmental Activities	Business-type Activities	Total
Assets			
Current Assets:			
Cash and Investments	\$ 172,455	\$ 108,736	\$ 281,191
Accounts Receivable	-	154,186	154,186
Less Allowance for Bad Debts	-	(11,266)	(11,266)
Taxes Receivable	227,812	-	227,812
Due from Other Governments	77,815	2,554	80,369
Prepaid & Other Assets	15,208	-	15,208
Total Current Assets	493,290	254,210	747,500
Restricted Assets:			
Cash and Investments	1,093,798	553,755	1,647,553
Capital Assets:			
Land	465,259	-	465,259
Buildings, Improvements, & Parks	1,068,594	1,888	1,070,482
Distribution Systems	-	2,491,145	2,491,145
Machinery and Equipment	227,716	241,560	469,275
Office Furniture & Equipment	55,782	-	55,782
Vehicles	165,674	73,192	238,866
Infrastructure	6,714,224	-	6,714,224
Accumulated Depreciation	(4,072,030)	(1,290,209)	(5,362,238)
Water Rights and Other	-	124,291	124,291
Total Capital Assets Net of Accumulated Depreciation	4,625,219	1,641,867	6,267,086
Total Assets	6,212,307	2,449,832	8,662,139
Liabilities			
Current Liabilities:			
Accounts Payable	138,734	\$ 71,463	210,197
Accrued Liabilities	3,901	-	3,901
Subdivision Bond Deposits	219,439	-	219,439
Deferred Revenue	210,357	-	210,357
Current Portion of Leases	55,492	-	55,492
Current Bonds and Discounts Payable	72,931	26,000	98,931
Total Current Liabilities	700,854	97,463	798,317
Noncurrent Liabilities:			
Customer Deposits	-	18,572	18,572
Accrued Compensated Absences	-	21,088	21,088
Long Term Portion of Leases	266,918	-	266,918
Long Term Portion of Bonds	1,335,629	492,000	1,827,629
Total Noncurrent Liabilities	1,602,547	531,660	2,134,207
Total Liabilities	2,303,401	629,123	2,932,524
Net Assets			
Invested in Capital Assets, Net of Related Debt	3,216,020	1,123,867	4,339,887
Restricted	1,093,798	553,756	1,647,554
Unrestricted	(395,681)	143,086	(252,595)
Total Net Assets	\$ 3,914,137	\$ 1,820,709	\$ 5,734,846

pg 18

pg 22

City of La Verkin
Statement of Activities
For the Year Ended June 30, 2006

Function/Programs	Program Revenues			Net (Expense) Rev & Chgs in Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary Government						
Governmental Activities:						
General Government	\$ 874,990	\$ 74,782	\$ -	\$ (800,208)	\$ -	\$ (800,208)
Public Safety - Police	385,690	62,647	-	(261,840)	-	(261,840)
Public Safety - Fire	163,621	12,555	-	(151,066)	-	(151,066)
Public Safety - Animal Control	31,500	3,530	-	(27,970)	-	(27,970)
Public Works	625,207	61,247	-	(563,960)	-	(563,960)
Parks and Recreation	299,694	161,388	-	(138,306)	-	(138,306)
Intergovernmental						
Interest on Long-term Debt	33,235	-	-	(33,235)	-	(33,235)
Total Governmental Activities	2,413,937	365,594	73,758	(1,976,585)	-	(1,976,585)
Business-type Activities:						
Water	567,026	721,800	-	-	154,774	154,774
Sewer	288,020	303,119	-	-	15,099	15,099
Irrigation	15,618	16,746	-	-	1,128	1,128
Garbage	140,976	141,450	-	-	474	474
Drainage	-	104,820	-	-	104,820	104,820
Total Business-type Activities	1,011,640	1,287,935	-	-	276,295	276,295
Total Primary Government	\$ 3,425,577	\$ 1,651,529	\$ 73,758	\$ (1,976,585)	\$ 276,295	\$ (1,700,290)
General Revenues:						
Property Taxes				235,702		235,702
Fee in Lieu of Taxes					435,347	435,347
Sales and Use Taxes					100,270	100,270
Franchise Taxes					46,752	46,752
Telecommunication Tax					135,420	135,420
Highway Taxes					2,591	2,591
State Liquor Money					8,714	8,714
Unrestricted Investment Earnings					24,818	24,818
Bond Proceeds					289,453	289,453
Developer & Subdivision Fees					44,789	44,789
Miscellaneous					137,961	137,961
Transfers					521,500	521,500
Total General Revenues and Transfers				1,958,499	(474,898)	1,493,599
Change in Net Assets				(18,086)	(198,603)	(550,931)
Net assets - Beginning				3,932,223	2,019,312	5,951,535
Adjustment (See note 13)						
Net assets - Ending				\$ 3,914,137	\$ 1,820,709	\$ 5,400,604

pg 15

pg 15

The notes to the financial statements are an integral part of this statement.

**City of La Verkin
Balance Sheet
Governmental Funds
June 30, 2006**

	General	Streets Capital Projects	New Building Capital Projects	Parks Fund Non-major Governmental Funds	Permanent Fund Cemetery Perpetual Care Fund	Totals
Assets						
Cash - Unrestricted	\$ 177,686	\$ -	\$ -	\$ -	\$ -	\$ 177,686
Cash - Restricted	85,250	996,182	-	-	12,366	1,093,798
Accounts Receivable	17,455	-	-	-	-	17,455
Taxes Receivable	-	-	-	-	-	-
Prepaid & Other Assets	15,208	-	-	-	-	15,208
Due From Other Governments	77,815	-	-	-	-	77,815
Total Assets	\$ 373,414	\$ 996,182	\$ -	\$ -	\$ 12,366	\$ 1,381,962
Liabilities						
Accounts Payable	\$ 32,804	\$ 105,930	\$ -	\$ -	\$ -	\$ 138,734
Accrued Liabilities	3,901	-	-	-	-	3,901
Subdivision Cash Bonds	219,439	-	-	-	-	219,439
Deferred Revenue	-	-	-	-	-	-
Total Liabilities	256,144	105,930	-	-	-	362,074
Fund Equity						
Fund Balance - Unreserved	32,020	-	-	-	-	32,020
Fund Balance - Reserved	85,250	890,252	-	-	12,366	987,868
Total Fund Equity	117,270	890,252	-	-	12,366	1,019,888
Total Liabilities and Fund Equity	\$ 373,414	\$ 996,182	\$ -	\$ -	\$ 12,366	\$ 1,381,962

City of La Verkin
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
June 30, 2006

Total fund balances - governmental fund types:

pg 17 \$ 1,019,888

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. These assets consist of:

Land	\$ 465,259	
Buildings & Improvements	1,068,594	
Machinery & Equipment	227,716	
Office Furniture & Equipment	55,782	
Vehicles	165,674	
Infrastructure	6,714,224	
Accumulated Depreciation	<u>(4,072,030)</u>	
Total Capital Assets, Net		4,625,219

Deferred Revenue related to the current period should be reclassified as revenue and should be reported in the funds.

0

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Long-term liabilities at year-end consist of compensated absences

(1,730,970)

Net assets of government activities

\$ 3,914,137
pg 15

The notes to the financial statements are an integral part of this statement.

City of La Verkin
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006

	MAJOR GOVERNMENTAL FUNDS			NON-MAJOR GOVT FUNDS		Total
	General Fund	Streets Capital Project	New Building Capital Project	PARKS CAPITAL PROJECTS FUND	Permanent Fund Cemetery Perpetual Care	Governmental Funds
	FUND 10	FUND 45	FUND 47	FUND 46	FUND 57	
Revenues						
Property Taxes-Current	\$ 132,902	\$ -	\$ -	\$ -		\$ 132,902
Property Taxes-Delinquent	102,800	-	-	-		102,800
Fee in lieu of taxes	-	-	-	-		-
Sales and use taxes	383,760	-	-	-		383,760
1/4% Sales Tax - Streets	51,587	-	-	-		51,587
Franchise Taxes	100,270	-	-	-		100,270
Telecommunications Tax	46,752	-	-	-		46,752
Licenses and permits	78,312	-	-	-		78,312
Intergovernmental revenue	199,215	-	-	-		199,215
Charge for services	9,000	-	-	-		9,000
Fines and Penalties	43,022	-	-	-		43,022
Interest Income	8,714	-	-	-		8,714
Sale of materials/assets	9,095	-	-	-		9,095
Street Improvement Agreements	38,151	-	-	-		38,151
Other Revenues	85,250	-	-	-	7,175	92,425
Total Revenues	1,288,830	-	-	-	7,175	1,296,005
Expenditures						
Mayor and council	26,341	-	-	-	-	26,341
Administration	511,758	-	-	-	-	511,758
Building Department	71,182	-	-	-	-	71,182
Inspection Department	223,682	-	-	-	-	223,682
Public Safety	378,866	-	-	-	-	378,866
Fire Department	155,507	-	-	-	-	155,507
Animal Control	31,500	-	-	-	-	31,500
Public Works - Streets	207,311	203,155	-	-	-	410,466
Parks and Recreation	251,443	-	-	-	-	251,443
Fairs & Festivals	18,843	-	-	-	-	18,843
Cemetery	-	-	-	-	-	-
Capital Outlay - Other	-	-	234,241	-	-	234,241
Debt Service - Principal	69,166	-	-	-	-	69,166
Debt Service - Interest	33,235	-	-	-	-	33,235
Total Expenditures	1,978,834	203,155	234,241	-	-	2,416,230
Excess (Deficiency) of Revenue over Expenditures	(690,004)	(203,155)	(234,241)	-	7,175	(1,120,225)
Other Financing Sources (Uses):						
Impact Fees	175,773	-	-	-	-	175,773
Interest Income	-	4,045	-	-	-	4,045
Bond Proceeds	-	1,093,000	-	-	-	1,093,000
Legal Proceeds	21,257	-	-	-	-	21,257
Developer Proceeds	15,651	-	-	-	-	15,651
Operating transfers out	(290,176)	-	-	(2,544)	(7,000)	(299,720)
Operating transfers in	531,044	59,268	230,908	-	-	821,220
Excess of revenue and other sources over (under) expenditures and other uses	(236,453)	953,158	(3,333)	(2,544)	175	711,001
Fund Balance at Beginning of Year	353,725	(62,906)	3,333	2,544	12,191	308,887
Fund Balance at End of Year	\$ 117,270	\$ 890,252	\$ -	\$ -	\$ 12,366	\$ 1,019,888

pg 17

City of La Verkin
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2006

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds	pg 19	\$ 711,001
---	-------	------------

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.		87,530
--	--	--------

Net effect of revenues reported on the accrual basis in the Statement of Activities that do not provide current financial resources and thus are not reported as revenues in the funds until available.		(69,881)
---	--	----------

The issuance of long-term debt (e.g., bonds, leases) provide current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.		(746,736)
---	--	-----------

Change in net assets of governmental activities		\$ (18,086)
		pg 16

City of La Verkin
Statement of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual - General Fund Types
For the Year Ended June 30, 2006

	General Fund Types			
	Budgeted Amounts			
	Original	Revised	Actual	Over/(Under)
Revenues				
Property Taxes-Current	\$ 208,000	\$ 208,000	\$ 132,902	\$ (75,098)
Property Taxes-Delinquent	30,000	30,000	102,800	72,800
Fee in Lieu of Taxes	25,000	25,000	-	(25,000)
Sales & Use Taxes	320,000	320,000	383,760	63,760
1/4% Sales Tax (Streets)	50,000	50,000	51,587	1,587
Telecommunications Tax	35,000	35,000	46,752	11,752
Franchise Taxes	95,000	100,000	100,270	270
Licenses and Permits	105,000	155,000	78,312	(76,688)
Intergovernmental	135,156	192,156	199,215	7,059
Charges for Services	20,000	50,000	9,000	(41,000)
Fines & Penalties	41,500	46,000	43,022	(2,978)
Interest	5,000	6,500	8,714	2,214
Sale of Materials/Assets	6,100	6,100	9,095	2,995
Street Improvement Agreements	-	-	38,151	38,151
Other Revenue	63,289	174,289	87,794	(86,495)
Total Revenues	1,139,045	1,398,045	1,291,374	(106,671)
Expenditures				
Mayor & Council	48,107	26,604	26,341	(263)
Administration	346,712	809,557	801,934	(7,623)
Building Department	39,085	71,185	71,182	(3)
Inspection Department	159,189	232,189	223,682	(8,507)
Public Safety	345,963	382,964	378,866	(4,098)
Fire Department	96,222	156,722	155,507	(1,215)
Animal Control	31,500	31,500	31,500	-
Public Works - Streets	232,516	219,916	207,311	(12,605)
Parks and Recreation	111,172	253,172	251,443	(1,729)
Fairs & Festivals	14,000	19,000	18,843	(157)
Cemetery	-	-	-	-
Debt Service - Principal	95,432	102,432	69,166	(33,266)
Debt Service - Interest	-	-	33,235	33,235
Total Expenditures	1,519,898	2,305,241	2,269,010	(36,231)
Excess (Deficiency) of Revenue over Expen	(380,853)	(907,196)	(977,636)	(70,440)
Other Financing Sources (Uses):				
Proceeds of Capital Lease Obligation	-	-	-	-
Impact Fees	133,000	261,500	175,773	(85,727)
Interest Income	-	-	-	-
Bond Proceeds	-	-	-	-
Legal Proceeds	-	-	21,257	21,257
Developer Proceeds	-	-	15,651	15,651
Operating Transfers Out	-	-	-	-
Operating Transfers In	251,500	611,500	528,500	(83,000)
Fund Balance at Beginning of Year	180,276	108,276	353,725	245,449
Fund Balance at End of Year	\$ 183,923	\$ 74,080	\$ 117,270	\$ 43,190

The Notes to Financial Statements are an integral part of this statement.

City of La Verkin
Statement of Net Assets
Proprietary Funds
June 30, 2006

	<u>Business-Type Activities - Enterprise Funds</u>					
	<u>Water</u>	<u>Sewer</u>	<u>Irrigation</u>	<u>Garbage</u>	<u>Drainage</u>	<u>Total</u>
Assets						
Current Assets:						
Cash and Investments	\$ 161,547	\$ (40,344)	\$ (1,889)	\$ (19,612)	\$ 9,034	\$ 108,736
Accounts Receivable	75,557	41,138	2,762	20,428	14,301	154,186
Less Allowance for Doubtful Accounts	(10,959)	(205)	-	(102)	-	(11,266)
Due from Other Governments	2,554	-	-	-	-	2,554
Inventory of Supplies	-	-	-	-	-	-
Total Current Assets	228,699	589	873	714	23,335	254,210
Restricted Assets:						
Cash and Investments	552,610	-	-	-	1,145	553,755
Capital Assets:						
Buildings and Parks	1,888	-	-	-	-	1,888
Distribution Systems	2,491,145	-	-	-	-	2,491,145
Machinery and Equipment	314,752	-	-	-	-	314,752
Accumulated Depreciation	(1,290,209)	-	-	-	-	(1,290,209)
Water Rights and Other	124,291	-	-	-	-	124,291
Total Capital Assets Net of Accumulated Depreciation	1,641,867	-	-	-	-	1,641,867
Total Assets	\$ 2,423,176	\$ 589	\$ 873	\$ 714	\$ 24,480	\$ 2,449,832
Liabilities						
Current Liabilities:						
Accounts Payable	\$ 32,941	\$ 24,844	\$ 1,815	\$ 11,863	\$ -	\$ 71,463
Accrued Interest Payable	-	-	-	-	-	-
Current Bonds and Discounts Payable	26,000	-	-	-	-	26,000
Total Current Liabilities	58,941	24,844	1,815	11,863	-	97,463
Noncurrent Liabilities:						
Customer Deposits	18,572	-	-	-	-	18,572
Accrued Compensated Absences	21,088	-	-	-	-	21,088
Bonds Payable	492,000	-	-	-	-	492,000
Total Noncurrent Liabilities	531,660	-	-	-	-	531,660
Total Liabilities	590,601	24,844	1,815	11,863	-	629,123
Net Assets						
Invested in Capital Assets, Net of Related Debt	1,123,867	-	-	-	-	1,123,867
Restricted	552,610	-	-	-	1,145	553,755
Unrestricted	156,098	(24,255)	(942)	(11,149)	23,335	143,087
Total Net Assets	\$ 1,832,575	\$ (24,255)	\$ (942)	\$ (11,149)	\$ 24,480	\$ 1,820,709

pg 15

City of La Verkin
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2006

	Water	Sewer	Irrigation	Garbage	Drainage	Total
Operating Revenues:						
Fees for Services Provided	\$ 569,860	\$ 303,119	\$ 16,746	\$ 141,450	\$ 98,192	\$ 1,129,367
Late Fees & Penalties	31,952	-	-	-	-	31,952
Miscellaneous	13,865	-	350	-	-	14,215
Total Operating Revenues	615,677	303,119	17,096	141,450	98,192	1,175,534
Operating Expenses						
Salaries	149,915	-	-	-	-	149,915
Employee Benefits	66,453	-	-	-	-	66,453
Insurance	-	-	-	-	-	-
Depreciation	150,512	-	-	-	-	150,512
Supplies, Tools, & Vehicle Costs	49,313	-	-	-	-	49,313
Water / Sewer Charges	101,880	288,020	15,618	140,976	-	546,494
Other Expenses	758	-	-	-	-	758
Office Expense	29,329	-	-	-	-	29,329
Outside Services	18,866	-	-	-	-	18,866
Total Operating Expenses	567,026	288,020	15,618	140,976	-	1,011,640
Operating Income (Loss)	48,651	15,099	1,478	474	98,192	163,894
Nonoperating Revenues (Expenses)						
Transfer from General Fund	(270,000)	(26,500)	(3,000)	(22,000)	(200,000)	(521,500)
Interest Income/ Bond Discount	24,818	-	-	-	-	24,818
Interest Expense	(5,390)	-	-	-	-	(5,390)
Impact Fees	119,988	-	-	-	6,628	126,616
Total Nonoperating Revenues (Expenses)	(130,584)	(26,500)	(3,000)	(22,000)	(193,372)	(375,456)
Change in Net Assets	(81,933)	(11,401)	(1,522)	(21,526)	(95,180)	(211,562)
Prior Period Adjustment	12,959	-	-	-	-	12,959
Total Net Assets - Beginning	1,901,549	(12,854)	580	10,377	119,660	2,019,312
Total Net Assets - Ending	\$ 1,832,575	\$ (24,255)	\$ (942)	\$ (11,149)	\$ 24,480	\$ 1,820,709

The notes to the financial statements are an integral part of this statement.

City of Enterprise
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2006

	Business-Type Activities - Enterprise Funds					Totals
	Water Utility	Sewer Utility	Irrigation Utility	Garbage	Drainage	
Cash Flows from Operating Activities						
Cash Received from Customers	\$ 596,012	\$ 298,263	\$ 16,397	\$ 138,470	\$ 96,549	\$ 1,145,691
Cash Received from Customers, Other	-	-	-	-	-	-
Cash Paid to Suppliers	(262,929)	(286,564)	(15,612)	(139,859)	-	(704,964)
Cash Paid to Employees	(149,915)	-	-	-	-	(149,915)
Net Cash Provided by Operating Activities	183,168	11,699	785	(1,389)	96,549	290,812
Cash Flows from Capital and Related Financing Activities						
Acquisition and Construction of Capital Assets	(52,221)	-	-	-	-	(52,221)
Impact Fees Received	119,988	-	-	-	6,628	126,616
Principal Paid on Long-term Debt	(21,000)	-	-	-	-	(21,000)
Transfer from (to) Other Funds	(270,000)	(26,500)	(3,000)	(22,000)	(200,000)	(521,500)
Interest Paid	(5,390)	-	-	-	-	(5,390)
Net Cash Used in Capital and Related Financing Activities	(228,623)	(26,500)	(3,000)	(22,000)	(193,372)	(473,495)
Cash Flows from Investing Activities						
Proceeds from Interest Earnings	24,818	-	-	-	-	24,818
Prior Period Adjustment	12,959	-	-	-	-	12,959
Net Increase (Decrease) in Cash and Cash Equivalents	(7,678)	(14,801)	(2,215)	(23,389)	(96,823)	(157,865)
Cash and Cash Equivalents at Beginning of Year	721,835	(25,543)	326	3,777	107,002	807,397
Cash and Cash Equivalents at End of Year	\$ 714,157	\$ (40,344)	\$ (1,889)	\$ (19,612)	\$ 10,179	\$ 662,491
Reconciliation of Operating Income to Net Cash Provided by Operations:						
Operating Income (Loss)	\$ 48,651	\$ 15,099	\$ 1,478	474	98,192	\$ 163,894
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:						
Depreciation	150,512	-	-	-	-	150,512
Change in Assets and Liabilities:						
Decrease (Increase) in Receivables	(24,948)	(4,856)	(699)	(2,980)	(1,643)	(35,126)
Decrease (Increase) in Inventories	-	-	-	-	-	-
Increase (Decrease) in Accounts Payable	3,670	1,456	6	1,117	-	6,249
Increase (Decrease) in Customer Deposits	5,283	-	-	-	-	5,283
Increase (Decrease) in Compensated Absences	-	-	-	-	-	-
Net Cash Provided by Operating Activities	\$ 183,168	\$ 11,699	\$ 785	\$ (1,389)	\$ 96,549	\$ 290,812

The notes to the financial statements are an integral part of this statement.

CITY OF LA VERKIN, Utah
Notes to Financial Statements
June 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of La Verkin (The City) is incorporated under the laws of the State of Utah and operates within the classification of a fifth class city. The City has a governing body consisting of a mayor and five council members and provides the following services as authorized by its charter: public safety, public works, culture, recreation and community development.

The financial statements of the City have been prepared to conform with generally accepted accounting principles (GAAP) as applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting and reporting policies and practices used by the City are described below.

A. Reporting Entity

The City applies the criteria set forth in GASB Statement No. 14, *The Financial Reporting Entity*, to determine which governmental organizations should be included in the reporting entity. The inclusion or exclusion of component units is based on the elected officials' accountability to their constituents. The financial reporting entity follows the same accountability. In addition, the financial statements of the reporting entity should allow the user to distinguish between the primary government (including its blended component units, which are, in substance, part of the primary government) and discretely presented component units. Criteria for inclusion of an entity into the primary governmental unit (in blended or discrete presentation) includes but is not limited to, legal standing, fiscal dependency, imposition of will and the primary recipient of services. The City has no component units included within its reporting entity.

B. Implementation of New Accounting Standards
Governmental Accounting Standards Board Statement No. 34

For the fiscal year ended June 30, 2006, the City implemented GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* (GASB 34). This statement affects the manner in which the City records transactions and presents financial information.

State and local governments have traditionally used a financial reporting model substantially different from the one used to prepare private-sector financial reports. GASB 34 establishes new requirements and a new reporting model, much like private-sector financial reports, for the annual financial reports of state and local governments. The new format was developed to make annual reports of state and local governments easier to understand and more useful to users of governmental financial information.

CITY OF LA VERKIN, Utah
Notes to Financial Statements
June 30, 2006

Management's Discussion and Analysis—GASB 34 requires the financial statements be accompanied by a narrative introduction and analytical overview of the City's financial activities in the form of management's discussion and analysis (MD&A). This analysis is similar to the analysis provided in the annual reports of private-sector organizations.

Government-Wide Financial Statements The reporting model includes financial statements prepared using full accrual accounting for all the City's activities. This approach includes not just current assets and liabilities, but also capital and other long-term assets as well as long-term liabilities. Accrual accounting also reports all of the revenues and costs of providing services each year, not just those received or paid in the current year or soon thereafter. Government-wide financial statements include the following:

Statement of Net Assets The statement of net assets is designed to display the financial position of the Primary Government (governmental and business-type activities). The City reports capital assets in the government-wide statement of net assets and reports depreciation expense—the cost of "using up" capital assets—in the statement of activities. The net assets of the City are broken down into three categories—1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Statement of Activities—The statement of activities reports expenses and revenues in a format that focuses on the cost of each of the City's functions. The expense of individual functions is compared to the revenue generated directly by the function. Accordingly, the City has recorded capital assets and certain other long-term assets and liabilities in the statement of net assets and has reported all revenues and the cost of providing services under the accrual basis of accounting in the statement of activities. Implementation of GASB 34 has had a significant impact on the City's financial statements for the year ended June 30, 2006.

Governmental Accounting Standards Board Statement No. 37

For the fiscal year ended June 30, 2004, the City implemented GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus* (GASB 37). This statement amends GASB 34 to either: 1) clarify certain provisions, or 2) modify other provisions that GASB believes may have unintended consequences in some circumstances. Accordingly, the City considered the effects of this statement when implementing the provisions of GASB 34, as previously described.

Governmental Accounting Standards Board Statement No. 38

The City adopted the provisions of GASB No. 38, *Certain Financial Statement Note Disclosures* (GASB 38). This statement modifies, establishes, and rescinds certain financial statement disclosure requirements. Accordingly, certain footnote disclosures have been revised to conform to the provisions of GASB 38.

CITY OF LA VERKIN, Utah
Notes to Financial Statements
June 30, 2006

Governmental Accounting Standards Board Interpretation No. 6

For the fiscal year ended June 30, 2005, the City implemented GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Government Fund Financial Statements*. This interpretation clarifies the application standards for modified accrual recognition of certain liabilities and in areas where differences have arisen, or could arise, in interpretation and practice. This interpretation affects the fund level financial statements (governmental funds only, not proprietary or fiduciary funds) required by GASB 34, but has no direct effect on the government-wide financial statements. Accordingly, the City has not recognized the current portion of certain long-term liabilities and related expenditures in the governmental funds financial statements for amounts not considered to be due and payable as of June 30, 2005. The City also considered the effects of this interpretation when implementing the provisions of GASB 34 as previously described.

C. BASIC FINANCIAL STATEMENTS

Basic financial statements consist of the following:

- Government-wide financial statements,
- Fund financial statements, and
- Notes to the basic financial statements.

The government-wide financial statements consist of the statement of net assets and the statement of activities and report information on all of the nonfiduciary activities of the Primary Government audits component units. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. All internal balances in the statement of net assets have been eliminated, with the exception of those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total government column. In the statement of activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated. Exceptions to this general rule are charges between the City's Water Fund and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges

CITY OF LA VERKIN, Utah
Notes to Financial Statements
June 30, 2006

(business-type activities). The governmental activities of the City include general government, public safety (police and fire), public improvements, and parks & recreation.

The business-type activities of the City include water, sewer, Irrigation, Garbage & Drainage.

The statement of activities demonstrates the degree to which the direct and indirect expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Indirect expenses are allocated based on the annual cost allocation plan. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity, and 2) grants and contributions, including special assessments, that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

D. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds and fiduciary funds financial statements. Revenues are recorded when earned or, for property tax revenues, in the period for which levied. Expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental funds financial statements are reported using the current financial resources measurement focus and the modified-accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City in general considers revenues available if they are collected within 180 days after year-end, except for property taxes, which the City considers available if they are collected within 60 days after year-end. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when payment is due.

For the governmental funds financial statements, the City considers all revenues susceptible to accrual and recognizes revenue if the accrual criteria are met. Specifically, sales taxes, franchise taxes, licenses, interest, special assessments, charges for services, and other miscellaneous reve-

CITY OF LA VERKIN, Utah
Notes to Financial Statements
June 30, 2006

nue are all considered to be susceptible to accrual and have been recognized as revenue in the current fiscal period. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met and are recorded at the time of receipt or earlier, if the susceptible to accrual criteria are met.

The accounts of the City are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all the financial resources and the legally authorized activities of the City except those required to be accounted for in other specialized funds.

The Street Improvement, New Office Building and the Park Improvement funds are Capital Project Funds. They account for the activities of the respective projects. These funds were closed out as of June 30, 2006.

The City reports the following major proprietary funds:

The Water Utility Fund accounts for the activities of providing water service to the citizens of the City.

The Sewer Utility Fund accounts for the activities of providing sewer services. Ash Creek Special Service District operates a regional sewer service and bills the participating towns each month.

The Irrigation Utility Fund accounts for the activities of providing irrigation water to participating citizens. The LaVerkin Canal Company operates the irrigation system and the City bills the citizens and remits collected amounts to the canal company.

The Garbage Utility Fund accounts for the activities of providing garbage pick up service through Washington County Solid Waste District.

CITY OF LA VERKIN, Utah
Notes to Financial Statements
June 30, 2006

The Drainage Utility Fund accounts for the activities of providing Storm Drainage to the citizens of the City.

Each of these separate funds are to account for providing the applicable services to the residents of the City. All activities necessary to provide such services are accounted for in these funds, including, but not limited to, administration, operations, maintenance, financing and related debt service and billing and collection. Net working capital of the combined Enterprise Funds at June 30, 2006 amounted to \$ 710,502.

Additionally, the City reports the following fund types:

Permanent Funds account for resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support specific programs. The City has one permanent fund - The Cemetery Perpetual Care Fund.

Internal Service Funds account for vehicle operations, risk management, and information technology and communications operations that provide services to other departments of the City on a cost-reimbursement basis. The City has no internal service funds.

Fiduciary Funds, which consist solely of Agency funds, account for assets held by the City as a trustee or as an agent for individuals or other government units. The only fiduciary fund type used by the City is the Agency Fund type. Agency funds are custodial in nature and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. These funds account for assets held by the City in an agency capacity for individuals or other governmental units. The City has no Agency Funds.

Proprietary funds have elected not to apply Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989, for proprietary funds. The proprietary funds apply all applicable GASB pronouncements as well as statements and interpretations of the FASB, the Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues

CITY OF LA VERKIN, Utah
Notes to Financial Statements
June 30, 2006

of the Enterprise Funds and of the City's Internal Service Funds are charges to customers for sales and services. Operating expenses for Enterprise Funds and Internal Service Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

E. ASSETS, LIABILITIES, NET ASSETS OR FUND EQUITY

Cash and Investments

In order to maximize the flexibility of its investment program and to aid in cash budgeting, the City pools the cash of all funds, except for monies deposited with fiscal agents in accordance with related bond indentures. The cash and investments balance in each fund represents that fund's equity share of the City's cash and investment pool. As the City places no restrictions on the deposit or withdrawal of its equity from the pool by a particular fund, the pool operates like a demand deposit account for the participating funds.

Interest income earned on pooled cash and investments is allocated quarterly to the various funds based on quarter-end balances and is adjusted at year-end. Interest income on restricted cash and investments with fiscal agents is credited directly to the related fund.

The City's investments are carried at fair value, except for certain short-term money market investments, which approximate fair value. The fair value of the City's share of the Utah Public Treasurers Investment Fund (PTIF) is reported to the City on a quarterly basis. PTIF operates in accordance with laws and regulations of the State of Utah. The reported value of the pool is the same as the fair value of pool shares. Changes in fair value are allocated to each participating fund on an annual basis.

For purposes of the statement of cash flows, the City has defined cash and cash equivalents to be change and petty cash funds, equity in the City's cash and investment pool, and restricted, non pooled investments with initial maturities of three months or less.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as *interfund receivables/interfund payables*, i.e., the current portion of interfund loans, or *advances to/from other funds*, the noncurrent portion of interfund loans. All other outstanding balances between funds are reported as *interfund receivables/interfund payables*. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as *internal balances*.

Advances between funds, as reported in the fund financial statements, are offset by a reservation of

CITY OF LA VERKIN, Utah
Notes to Financial Statements
June 30, 2006

fund balance in the applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade receivables are shown net of an allowance for uncollectible accounts and estimated refunds due. As of June 30, 2006 and 2005, the allowance for uncollectible accounts for governmental and business-type activities was \$ 11,266 each of the two years.

Property Taxes

The property taxes of the City of La Verkin are levied, collected and distributed by Washington County as required by Utah State law. Utah statutes establish the process by which taxes are levied and collected. The county assessor is required to assess real property as of January 1 and complete the tax rolls by May 22. By July 22, the county auditor is to mail notices of assessed value and tax changes to property owners. A taxpayer may then petition the county board of equalization between August 8 and August 22 for a revision of the assessed value. Approved changes in assessed value are made by the county auditor by November 1, who also delivers the completed assessment rolls to the county treasurer on that same date. Tax notices have a due date November 30.

Restricted Assets

Certain proceeds of the City's bonds, as well as certain resources set aside for their repayment, along with B & C Road funds, Liquor Law Enforcement funds, and Emergency Medical Technician funds are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants or by state statute or other restriction.

In the absence of specific statutory provisions governing the issuance of bonds, certificates, or leases, these bond monies may be invested in accordance with the ordinance, resolutions, or indentures specifying the types of investments its trustees or fiscal agents may make. These ordinances, resolutions, and indentures are generally more restrictive than the City's general investment policy. In no instance have additional types of investments been authorized that are not permitted by the City's general investment policy.

Capital Assets

Capital assets, which include land, buildings, and improvements, equipment, and infrastructure assets (e.g., roads, sidewalks, street lights, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives is not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest

CITY OF LA VERKIN, Utah
Notes to Financial Statements
June 30, 2006

incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest was capitalized during the years ended June 30, 2006 and 2005..

Capital assets of the City are depreciated using a straight-line method over the following estimated useful lives as follows:

Distribution Plant - Water	25 - 40 years
Water Treatment Plant	25 - 40 years
Vehicles & Equipment	3 - 10 years
Buildings	40 - 50 years
Building and Park Improvements	15 - 20 years

As a result of the implementation of GASB 34, the City is for the first time accounting for infrastructure assets on its financial statements. The government-wide financial statements include those infra-structure assets that were either completed during the current fiscal year or considered construction in progress at current fiscal year-end.

Lease Obligations

The City leases various assets under both operating and capital lease agreements. In the government-wide and proprietary funds financial statements, capital leases and the related lease obligations are reported as liabilities in the applicable governmental activities or proprietary funds statement of net assets.

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation, sick leave and comp time benefits up to a maximum determined by the city personnel policy. Employees are paid 100% of their accumulated but unused leave when they retire. All vacation is accrued when incurred in the government-wide and proprietary fund financial statements and a liability is reported in the government Long-Term Liabilities. Effective July 1, 2006 only 50% of the current year vacation time may be carried forward.

In the government-wide financial statements and proprietary funds financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Initial-issue bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. The difference between the reacquisition price of refunding bonds and

CITY OF LA VERKIN, Utah
Notes to Financial Statements
June 30, 2006

the net carrying amount of refunded debt (deferred amount on refunding) is amortized over the shorter of the lives of the refunding debt or remaining life of the refunded debt. Bonds payable are reported net of the unamortized portion of applicable premium, discount, or deferred amount on refunding. Bond issuance costs, including underwriters' discount, are reported as deferred bond issuance costs. Amortization of bond premiums or discounts, issuance costs, and deferred amounts on refunding are included in interest expense.

In the governmental funds financial statements, bond premiums, discounts, and issuance costs are recognized when the related debt is issued. The face amount of debt issued is reported as other financing sources. Premiums received are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. Interest and principal payments are reported as debt service expenditures.

Net Assets and Fund Equity

In the government-wide financial statements and proprietary funds financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Net assets invested in capital assets, net of related debt represents capital assets less accumulated depreciation less outstanding principal of related debt. Net assets invested in capital assets, net of related debt does not include the unspent proceeds of capital debt. Restricted net assets represent net assets restricted by parties outside of the City (such as creditors, grantors, contributors, laws, and regulations of other governments) and include unspent proceeds of bonds issued to acquire or construct capital assets. The nonexpendable portion of permanent funds is reported as a component of restricted net assets. The City's other restricted net assets are temporarily restricted (ultimately expendable) assets. All other net assets are considered unrestricted.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates

The preparation of basic financial statements in conformance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

Comparative Data

Comparative total data for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the City's financial position and

CITY OF LA VERKIN, Utah
Notes to Financial Statements
June 30, 2006

operation. However, comparative (i.e. presentation of prior year totals by fund type) data have not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read.

Budgetary Data

The following procedures are used in establishing the budgetary data reflected in the financial statements. The general fund budget is presented on the modified accrual basis of accounting while the budget for the enterprise funds are presented on the accrual basis of accounting.

1. For the fiscal year beginning July 1, the City Manager prepares a tentative budget which is presented to the City Council at least 7 days prior to its adoption.

2. By resolution, the City Council legally adopts the final budget prior to June 22, after a public hearing has been held.

3. Once adopted, the budget can be amended. Reductions in appropriations can be approved by the City Council, but increased appropriations require a public hearing to amending the budget.

4. Interim adjustments of estimated revenues and expenditures during fiscal year 2006 have been included in the final budget approved by the City Council, as presented in the general purpose financial statements.

Restatement and Reclassification

Certain restatements and reclassification of the June 30, 2005 amounts have been made in order to make such amounts consistent and comparable where applicable.

NOTE 2: CASH AND INVESTMENTS

The City's cash and cash equivalents are considered to be cash-on-hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition for purposes of this note and the statement of cash flows.

The policy of the City is to follow the requirements of the Utah Money Management Act (Utah Code Annotated 1953, Section 51, Chapter 7) in handling its depository and temporary investment transactions. This law requires the depositing of City funds in a "qualified depository." The Act defines a "qualified depository" as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the commissioner of financial institutions as meeting the requirements of the Act and adhering to the rules of the Utah Management Council.

CITY OF LA VERKIN, Utah
Notes to Financial Statements
June 30, 2006

The Utah Money Management Act also governs the scope of securities allowed as appropriate temporary investments for the City. Investment transactions are to be conducted through qualified depositories or primary reporting dealers. Allowable investments under the Act include:

- a. Negotiable or non-negotiable deposits of qualified depositories.
- b. Repurchase agreements with qualified depositories or primary reporting dealers.
- c. Commercial paper which is rated P-1 by Moody's Investors Services or A-1 by Standard and Poor's Inc. if the remaining term to maturity is 180 days or less.
- d. Banker's acceptances that are eligible for discount at a federal reserve bank and which have a remaining term of 180 days or less.
- e. Obligations of the United States Treasury, including bills, notes and bonds.
- f. Obligations issued by or fully guaranteed as to principal and interest by the following agencies or instrumentalities of the United States in which a market is made by a primary reporting government securities dealer: Federal Farm Credit banks, Federal Home Loan banks, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation or Student Loan Marketing Association.
- g. Shares or certificates in any open-end management investment company registered with the Securities and Exchange commission under the Investment Company Act of 1940, and the portfolio of which is restricted by law or agreement to investments in which public funds may be invested directly.

The City's carrying amount of bank deposits at June 30, 2006 is \$ 1,109,185 and the bank balances amounted to \$ 1,109,185, of which, \$100,000 was covered by Federal Depository Insurance. \$ 1,009,185 was uninsured and uncollateralized. Of this amount \$613,450 was on deposit with the State of Utah Public Treasurers' Investment Fund. No deposits are collateralized, nor are they required by state statute.

State law provides for combining the cash balances from the various funds as long as the General Ledger balances for each fund are maintained separately.

Cash in banks and investments in the State Treasurers fund belong to the following funds:

CITY OF LA VERKIN, Utah
Notes to Financial Statements
June 30, 2006

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

	<u>General Fund</u>	<u>Capital Projects Funds</u>	<u>Enterprise Funds</u>	<u>Permanent Perpetual Care Fund</u>	<u>Total</u>
Cash - Unrestricted	\$ 172,455	\$ ----	\$ 458,068	\$ ----	\$ 630,523
Cash - Restricted	<u>90,481</u>	<u>996,182</u>	<u>204,423</u>	<u>12,366</u>	<u>1,303,452</u>
Totals	<u>\$ 262,936</u>	<u>\$ 996,182</u>	<u>\$ 662,491</u>	<u>\$ 12,366</u>	<u>\$ 1,933,975</u>

Temporary investments of the City at June 30, 2006 were all invested in the State of Utah Treasurer's Pool which is a segregated, managed investment pool of the Utah State Treasurer's Office. Those investments are stated at cost plus accrued interest. They are covered by FDIC insurance to the same degree that the total State Treasurer's Pool is covered by FDIC insurance at a given date. Their carrying amount at June 30, 2005 was \$613,450 and the market value was \$ 613,253.

The restricted cash and investments of the water and sewer funds are provided for in the various debt instruments as explained at Note 4.

NOTE 3: CAPITAL ASSETS

The changes to capital assets including depreciation and accumulated depreciation for the year ended June 30, 2006 are documented on the following two pages:

La Verkin City
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 3: CAPITAL ASSETS - Cont'd

	CAPITAL ASSETS			
	Balance 6/30/2005	Additions	Retirements	Balance 6/30/2006
<u>GENERAL</u>				
<u>GENERAL GOV</u>				
Land	\$ 131,535	\$ -	\$ -	\$ 131,535
Buildings & Improvements	306,920	259,401	-	566,321
Vehicles	23,780	-	-	23,780
Office Vehicles	-	29,493	-	29,493
Rental Improvements	-	6,280	-	6,280
Machinery & Equip.	28,965	-	-	28,965
Office Furn & Equip	18,703	37,079	-	55,782
TOTAL	509,903	332,253	-	842,156
<u>PUBLIC SAFETY</u>				
Land	-	-	-	-
Buildings & Improvements	61,444	-	-	61,444
Machinery & Equip.	6,940	54,971	-	61,911
Office Furn & Equip	-	-	-	-
Autos & Trucks	43,154	26,611	-	69,765
TOTAL	111,538	81,582	-	193,120
<u>PUBLIC WORKS</u>				
Land	74,300	-	-	74,300
Roads, Curb & Gutter	6,383,770	76,568	-	6,460,338
Sidewalks	253,886	-	-	253,886
Buildings & Improvements	22,000	-	-	22,000
Machinery & Equipment	76,068	-	-	76,068
Vehicles	24,224	-	-	24,224
Storm Drains	14,908	30,252	-	45,160
TOTAL	6,849,156	106,820	-	6,955,976
<u>PARKS & REC</u>				
Land	188,709	70,715	-	259,424
Buildings & Improvements	299,133	68,256	-	367,389
Vehicles	18,412	-	-	18,412
Machinery & Equip.	60,772	-	-	60,772
TOTAL	567,026	138,971	-	705,997
TOTAL GENERAL FUND	\$ 8,037,623	\$ 659,626	\$ -	\$ 8,697,249
<u>BUSINESS TYPE ACTIVITIES</u>				
<u>WATER FUND</u>				
Distribution System	\$ 2,454,029	\$ 37,116	\$ -	\$ 2,491,145
Buildings & Structures	-	-	-	-
Machinery & Equip.	245,049	15,105	-	260,154
Water Rights	118,268	-	-	118,268
Autos & Trucks	73,193	-	-	73,193
TOTAL WATER FUND	\$ 2,890,539	\$ 52,221	\$ -	\$ 2,942,760

ACCUMULATED DEPRECIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 3: CAPITAL ASSETS - Cont'd

	ACCUMULATED DEPRECIATION		
	Balance June 30, 2005	Additions	Balance June 30, 2006
GENERAL			
GENERAL GOV			
Land	\$ -	\$ -	\$ -
Buildings & Improvements	17,606	25,693	43,299
Rental Improvements	-	209	209
Machinery & Equip.	17,791	4,138	21,929
Office Furn & Equip	16,079	4,898	20,977
Vehicles	15,788	3,156	18,944
Office Vehicle	-	3,932	3,932
	<u>67,264</u>	<u>42,027</u>	<u>109,291</u>
PUBLIC SAFETY			
Buildings & Improvements	20,891	1,229	22,120
Machinery & Equip.	694	6,885	7,579
Office Furn & Equip	-	-	-
Autos & Trucks	31,458	6,824	38,282
	<u>53,043</u>	<u>14,938</u>	<u>67,981</u>
PUBLIC WORKS			
Land	-	-	-
Building & Improvements	2,750	1,100	3,850
Roads, Curb & Gutter	3,349,596	214,557	3,564,153
Sidewalks	138,794	8,529	147,323
Machinery & Equip.	47,506	6,071	53,577
Vehicles	20,671	1,554	22,225
Storm Drains	4,185	3,587	7,772
	<u>3,563,502</u>	<u>235,398</u>	<u>3,798,900</u>
PARKS & REC			
Land	-	-	-
Buildings & Improvements	47,706	21,929	69,635
Vehicles	1,841	3,682	5,523
Machinery & Equip.	16,903	3,796	20,699
	<u>66,450</u>	<u>29,408</u>	<u>95,858</u>
TOTAL GENERAL FUND	<u>\$ 3,750,259</u>	<u>\$ 321,770</u>	<u>\$ 4,072,030</u>
BUSINESS TYPE ACTIVITIES			
WATER FUND			
Water Distribution System	\$ 962,587	\$ 109,357	\$ 1,071,944
Machinery & Equipment	146,874	27,333	174,207
Vehicles	30,236	13,821	44,057
TOTAL WATER FUND	<u>\$ 1,139,697</u>	<u>\$ 150,512</u>	<u>\$ 1,290,209</u>

CITY OF LA VERKIN, Utah
Notes to Financial Statements
June 30, 2006

NOTE 4: LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ending June 30, 2006:

	<u>6/30/05</u>	<u>Additions</u>	<u>Retirements</u>	<u>6/30/06</u>
<u>General Obligations</u>				
Note Payable	\$ <u>8,344</u>	<u>----</u>	\$ <u>2,533</u>	\$ <u>5,811</u>
<u>Revenue Bonds Payable</u>				
Road Revenue Bonds	\$ 376,236	\$ ----	\$ 66,133	\$ 310,103
Sales Tax Revenue Bonds		1,093,000		1,093,000
Water Revenue Bonds	<u>539,000</u>	<u>----</u>	<u>21,000</u>	<u>518,000</u>
Totals	\$ <u>915,236</u>	\$ <u>1,093,000</u>	\$ <u>87,133</u>	\$ <u>1,921,103</u>

Long-term debt and bonds outstanding at June 30, 2006 consisted of the following:

	<u>Current Portion</u>	<u>Non-Current Portion</u>	<u>Total</u>
Non-interest bearing note payable due in monthly installments of \$ 211 through October 1, 2008, secured by land and building	<u>\$ 2,322</u>	<u>\$ 3,489</u>	<u>\$ 5,811</u>
<u>Revenue Bonds Payable</u>			
\$ 653,879 Roads Revenue Bond, due in Quarterly installments of \$22,094 through May 10, 2014; Interest at 6.05% to 6.35%	\$ 70,398	\$ 239,705	\$ 310,103
\$ 640,000 Water Revenue Bonds Payable to the Utah Division of Water Resources, due in annual installments of \$ 25,800 to \$ 32,320 with interest at 1 %	21,000	497,000	518,000
Sales Tax Refunding Bonds Series 2006, due in annual installments ranging from \$33,000 to \$84,000 plus interest ranging from 4.69 to 4.92%, final payment due July 15, 2026	0	1,093,000	1,093,000
Total Revenue Bonds Payable	<u>\$ 91,398</u>	<u>\$ 1,829,705</u>	<u>\$ 1,921,103</u>

CITY OF LA VERKIN, Utah
Notes to Financial Statements
June 30, 2006

NOTE 4: LONG-TERM DEBT (CONTINUED)

Total Debt Service at June 30, 2006 was as follows:

Fiscal Year	Principal	Interest	Total
2007	98,931	23,157	122,088
2008	137,472	76,780	214,252
2009	142,179	63,163	205,342
2010	148,977	56,364	205,341
2011	65,000	51,336	116,336
2012	68,000	49,440	117,440
2013	70,000	47,422	117,422
2014	72,000	45,378	117,378
Thereafter	<u>1,124,355</u>	<u>303,875</u>	<u>1,428,230</u>
Totals	<u>\$ 1,926,914</u>	<u>\$ 716,915</u>	<u>\$ 2,643,829</u>

Cities such as La Verkin have a legal limit of general obligation indebtedness of four percent of the fair market value of taxable property. La Verkin has a remaining legal debt margin of approximately \$4,243,000.

Capital Leases:

The following is a summary capital lease activity for the year ending June 30, 2006:

	<u>6/30/05</u>	<u>Additions</u>	<u>Retirements</u>	<u>6/30/06</u>
Building Capital Lease Payable	\$ 205,000	----	\$ 15,492	\$ 189,508
Backhoe Capital Lease Payable	26,832	----	9,940	16,892
Dodge Truck Capital Lease Payable	26,354	----	2,496	23,858
Chevy Truck Capital Lease Payable	14,786	----	4,928	9,858
Chevy Tahoe Capital Lease Payable	----	26,611	11,598	15,013
Chevy Silverado Capital Lease Pay	----	29,493	11,602	17,891
Total General Obligations	<u>\$ 272,972</u>	<u>\$ 56,104</u>	<u>\$ 56,056</u>	<u>\$ 273,020</u>

CITY OF LA VERKIN, Utah
Notes to Financial Statements
June 30, 2006

Capital leases outstanding at June 30, 2006 consisted of the following:

	<u>Current Portion</u>	<u>Non-Current Portion</u>	<u>Total</u>
Office Building Lease, payable in annual installments of from \$17,237 to \$25,093 with interest at 4.75 %, final payment due March 1, 2015.....	\$ 17,237	\$ 172,271	\$ 189,508
2005 Silverado Truck lease with final payment due Sept 9, 2007 with interest at 4.75%.....	4,491	5,367	9,858
Backhoe Capital Lease payable to Zion's Bank in monthly installments of \$1,304 including interest at 3.31% through Sept. 15, 2007.....	12,083	4,809	16,892
2006 Chevy Tahoe Lease payable in annual installments through 2008	7,195	7,818	15,013
2006 Chevy Silverado Lease payable in annual installments through 2008	8,916	8,975	17,891
2005 Dodge Ram Truck lease due in 60 monthly payments through Dec 11, 2009 with interest at 6.21%.....	5,570	18,288	23,858
Others		<u>49,390</u>	<u>49,390</u>
Total Capital Leases Payable	<u>\$ 55,492</u>	<u>\$ 266,918</u>	<u>\$322,410</u>

NOTE 5: ACCOUNTS RECEIVABLE

Accounts Receivable in the accompanying financial statements include the following:

<u>Proprietary Funds</u>	
Water Fees	\$ 75,557
Sewer Fees	41,138
Irrigation	2,762

CITY OF LA VERKIN, Utah
Notes to Financial Statements
June 30, 2006

Garbage	20,428
Drainage	<u>14,301</u>
Total	<u>\$ 154,186</u>

NOTE 6: RETIREMENT PLANS

The City contributes to the Local Governmental Contributory Retirement System and Local Governmental Noncontributory Retirement System, all of which are cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). The Systems provide refunds, retirement benefits, annual cost of living allowances and death benefits to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code annotated 1953 (Chapter 49) as amended, which also establishes the Utah State Retirement Office (Office) for the administration of the Utah Retirement Systems and plans. Chapter 49 places the Systems, the Office and related plans and programs under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Systems and Plans. A copy of the report may be obtained by writing to the Utah Retirement System, 540 East 200 S, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Funding Policy

Plan members may contribute 6.0 percentage of their covered salary (all or part may be paid by the employer for the employee) and the City is required to contribute 5.61% of covered salary to the contributory system. The contribution rates are actuarially determined rates and are approved by the Board as authorized by Chapter 49.

The contributions made by the City for the year ended June 30, 2006 were paid by the due dates or within 30 days thereafter. The contributions were equal to the required contributions for each year. The City does not participate in a 457 Deferred Compensation Plan.

The required contributions and amounts received for the 2005/2006 fiscal year and the two previous fiscal years are as follows:

CITY OF LA VERKIN, Utah
Notes to Financial Statements
June 30, 2006

<u>System</u>	<u>Year</u>	<u>Employer paid Contributions</u>	<u>for employee Contributions</u>	<u>Salary subject Employer Contributions</u>	<u>to retirement Contributions</u>
Local Governmental- Contributory	2006	\$ ----	\$ 33,887	\$ 39,987	\$ 564,787
	2005	----	26,568	31,350	442,794
	2004	----	19,697	18,417	328,284
Public Safety System Division A Noncontr- ibutory	2006	—	----	4,299	22,226
	2005	—	—	—	—
	2004	—	—	—	—
401(k) Contributions	2006	\$ 7,984	\$ ----	N/A	
	2005	4,977	----	N/A	
	2004	5,530	----	N/A	

NOTE 7: COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS

The city is involved in certain legal matters that have arisen in the normal course of business. In the opinion of management none of these matters are of a nature that would have a material affect on the financial statements.

The City invested in the Ash Creek Irrigation Company during the 1987-88 fiscal year. The City, which owns 23.98% of the Company, is involved in a water development project with Hurricane City, Toquerville City, and the Washington County Water Conservancy District. The irrigation company has borrowed \$166,174 payable over twenty-six years at no interest. The City makes annual contributions to the irrigation company for retirement of the debt.

NOTE 8: RESERVED FUND BALANCES

Reserves are used to indicate that a portion of the fund balance is not available for appropriation or expenditure, or is legally segregated for a specific future use. At June 30, 2006, La Verkin City reserved fund balances are as follows:

		<u>Balance at June 30, 2005</u>	<u>Revenue/ Transfer</u>	<u>Interest Revenue</u>	<u>Expense</u>	<u>Balance at June 30, 2006</u>
A. General Fund						
(1)	B & C Road Funds	\$ 126,808	\$ 131,727	\$ 4,239	\$ 215,647	\$ 47,127
(2)	State Liquor Funds	----	2,591	----	2,591	----
(3)	Street Bond Repay	----	----	----	----	----
(4)	Impact Fees Parks	----	133,233	1,778	135,011	----
(5)	Impact Fees Public Safety	20,967	18,796	1,202	2,842	38,123
		<u>\$ 147,775</u>	<u>\$ 286,347</u>	<u>\$ 7,219</u>	<u>\$ 356,091</u>	<u>\$ 85,250</u>

CITY OF LA VERKIN, Utah
Notes to Financial Statements
June 30, 2006

	<u>Balance at</u> <u>June 30, 2005</u>	<u>Revenue/</u> <u>Transfer</u>	<u>Interest</u> <u>Revenue</u>	<u>Expense/</u> <u>Transfer</u>	<u>Balance at</u> <u>June 30, 2006</u>
B. Water Fund					
(1) Bond Fund	\$ 8,797	\$ 27,986	\$ ----	\$ 26,390	\$ 10,393
(2) Bond Reserve Fund	166,386	15,126	---	---	181,512
(3) Impact Fees - Water	281,642	119,988	7,137	48,062	360,705
(4) Impact Fees Storm Drain	36,321	6,628	853	42,657	1,145
	<u>\$ 493,146</u>	<u>\$ 318,830</u>	<u>\$10,185</u>	<u>\$ 40,292</u>	<u>\$ 553,755</u>
C. Permanent Fund					
(1) Cemetery Perpetual Care	<u>\$ 12,191</u>	<u>\$ 6,670</u>	<u>\$ 505</u>	<u>\$ 7,000</u>	<u>\$ 12,366</u>

NOTE 9: RISK MANAGEMENT

In the normal course of its operations the city is exposed to potential legal actions. Exposure to such situations is not beyond normal exposure, however, the City maintains what is in the opinion of management, adequate insurance coverage through the Utah Local Government's Insurance Trust. Workman's compensation insurance is handled through the Worker's Compensation Fund of Utah.

NOTE 10: USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires the City to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

NOTE 11 PUBLIC RISK POOL

The Utah Risk Management Mutual Association was organized in 1986 to provide a program of liability insurance. The program's general objectives are to formulate, develop, and administer, on behalf of the member political subdivision, a program of insurance to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The City has a deductible of \$ 1,000 per occurrence and a limit of coverage of \$ 4,000,000. The City's annual premium was \$ 15,305 which was shown as an expenditure to the various funds as insurance expense.

CITY OF LA VERKIN, Utah
Notes to Financial Statements
June 30, 2006

NOTE 12 ENTERPRISE INVENTORIES

Inventory consists only of supplies that are immaterial to the financial condition and therefore are not included on the statement of net assets but expensed when purchased.

CITY OF LA VERKIN, Utah
Notes to Financial Statements
June 30, 2006

THIS PAGE INTENTIONALLY LEFT BLANK



INDEPENDENT AUDITORS' REPORT ON STATE LEGAL COMPLIANCE

Honorable Mayor and City Council
La Verkin, Utah

We have audited the general purpose financial statements of the City of La Verkin, Utah, for the year ended June 30, 2006 and have issued our report thereon dated October 12, 2006. As part of our audit, we have audited the City's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2006. The City received the following major State assistance programs from the State of Utah:

C Road Funds
Liquor Law Enforcement

Department of Transportation
State Tax Commission

Our audit also included test work on the City's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt
Cash Management
Uniform Building Code Standards

Purchasing Requirements
Budgetary Compliance

Property Tax
Other Compliance Requirements
Impact Fees

The management of the City is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above which we have enumerated in a separate letter dated October 12, 2006.

In our opinion, the City of La Verkin complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2006.

Hafen, Buckner, Everett & Graff PC

HAFEN, BUCKNER, EVERETT & GRAFF, PC
October 12, 2006

Status of Prior Year's Findings For State Compliance

The general purpose financial statements of the City of La Verkin for the year ended June 30, 2005, contained certain audit finding. Listed below is the status of those findings at June 30, 2006.

FINDING 1: We noted during our audit that several departments exceeded the final approved budget which is a violation of state statutes. Most of these overages were created when the general ledger was adjusted to actual.

STATUS OF FINDING: This situation has been corrected and none of the departments are over budget for the 05-06 fiscal year.

FINDING 2: We noted that not all capital assets are identified and recorded as capital assets during the year requiring considerable work at year end.

STATUS OF FINDING: This finding is no longer applicable as capital assets are being identified and recorded as the year progresses.

FINDING 3: We noted that monies remitted to the State of Utah for building permits was underpaid by \$ 37 for the year ended June 30, 2005

STATUS OF FINDING: This finding is no longer applicable. All payments appeared to be correct.

FINDING 4: Employee files did not include documentation of approved pay rates.

STATUS OF FINDING: This finding is no longer applicable.



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

City Council
La Verkin, Utah

We have audited the financial statements of the City of La Verkin, State of Utah (the City) as of and for the year ended June 30, 2006, and have issued our report thereon dated October 12, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the City's management in a separate letter dated October 12, 2006.

This report is intended solely for the information of the Mayor, City Council, management and the Office of the State Auditor, and is not intended to be and should not be used by anyone other than these specified parties.

Hafen, Buckner, Everett & Graff PC

HAFEN, BUCKNER, EVERETT & GRAFF, PC

October 12, 2006

HAFEN
BUCKNER
EVERETT
& GRAFF, PC
CERTIFIED PUBLIC
ACCOUNTANTS

Honorable Mayor and City Council
La Verkin, Utah

We have audited the general purpose financial statements of the various funds and account groups of the City of La Verkin, Utah for the year ended June 30, 2006, and have issued our report thereon dated October 12, 2006, as part of our audit, we made a study and evaluation of the City's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. Under these standards, the purpose of such evaluation is to establish a basis for reliance on the system of internal accounting control in determining the nature, timing and extent of other auditing procedures that are necessary for expressing an opinion on the balance sheet and to assist the auditor in planning and performing their audit of the financial statement.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management either with respect to the execution and recording of transactions or with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of internal accounting control to the future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

Our audit made in accordance with auditing standards generally accepted in the United States of America, including the study and evaluation of the City's system of internal accounting control for the year ended June 30, 2006, that was made for the purposes set forth in the first paragraph of this report, would not necessarily disclose all weaknesses in the system because it was based on selective

following conditions that we believe should be brought to your attention.

It is important to recognize that a letter of this type is intended to be constructive in nature, and that the absence of positive or complimentary comments are not intended to imply that the operation is not efficient or sound.

FINDING 1: During our testing of payroll we noted one time card that did not bear the signature of the employee's supervisor as required by City policy.

RECOMMENDATION: We recommend that all time cards be approved by supervisors.

MANAGEMENT RESPONSE: Management agrees with the audit finding and recommendation and will take the necessary steps to implement the suggestion.

FINDING 2: We noted during our audit that the unadjusted cash balance for the petty cash fund was a negative \$ 515.23.

RECOMMENDATION: We recommend that the petty cash fund be maintained on an impress basis and that a monthly review be made to ensure that the balance is correct.

MANAGEMENT RESPONSE: Management has corrected the petty cash fund balance and will take the necessary action to implement the auditors recommendation.

FINDING 3: We noted that the unrestricted fund balance in the general fund is only 2.2% of projected revenues. State statute requires that a minimum 5% fund balance be maintained in the general fund.

RECOMMENDATION: We recommend that the city work to increase the unrestricted fund balance to the 5% minimum as required by state statute.

MANAGEMENT RESPONSE: Management agrees with the recommendation and take the necessary action to improve the General Fund balance.

We appreciate the help and cooperation provided by the City personnel during the course of our audit.

Because the above comments are based on a special study of matters covered, further evaluation of our suggestion may be necessary on your part as a basis for implementation.

Yours truly,

Hafen, Buckner, Everett & Graff PC

HAFEN, BUCKNER, EVERETT & GRAFF, PC
October 12, 2006